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(For Discussion Purposes only)

Flue-cured Tobacco Information

Flue-cured tobacco farmers have received one-fourth ~~percent~~ more money from the last five crops of bright tobacco than in any 5-year period in history.

Income from the 1938 flue-cured crop--the fifth produced under Triple-A programs--is estimated at around 170 million dollars, the third highest returns on record. Income from the 1938 crop was exceeded only by the 1919 and 1937 crops, respectively.

Under AAA farm programs, 1934-1938, growers of bright tobacco received an average annual income of 165 million dollars as compared with 131 million dollars during the 1919-1923 period. The 1924-1928 income averaged 125 million dollars and during 1929-1933, returns from flue-cured crops sagged to an average of 90 million dollars per year.

The 1934-38 value was the result of an average annual production of 737 million pounds and an average price per pound of 23 cents.

Income Higher With Program. Available data indicate that with the condition existing prior to the operation of Triple-A programs, when the trade could pay only such prices as would bring forth the quantity of tobacco desired, the price required to bring forth an amount of tobacco equal to that produced from 1934 to 1938 would have been not more than 15 cents per pound as compared with the actual average of 23 cents. Such a price with average production would have resulted in an average income of 111 million dollars as contrasted with the actual average income of 165 million dollars.

Without a stabilizing farm program, a fluctuating price to the producer from year to year has been the only effective force for controlling the supply of tobacco. Continuous excessive marketings reduce income from tobacco until production becomes unprofitable and growers are required, through economic instability, to reduce their marketings while the excess of past years is being consumed. Then, when burdensome supplies have been reduced and prices are again favorable, producers, influenced by the more profitable prices, increase their marketings, usually to a level considerably above world demand, only to be adjusted downward through lower prices and reduced income again.

Primary Price Factors. The four primary factors affecting tobacco prices are: (1) Trends in consumption; (2) stocks on hand; (3) size and quality of the current crop; and (4) acreage that is likely to be planted the following year.

In the past, production of tobacco without regard to the above economic factors have usually resulted in the following conditions: (1) excessive supplies of tobacco have accumulated periodically; (2) disproportions have occurred in the distribution of the income from tobacco products; (3) prices and income of tobacco farmers have been lower; (4) reductions have occurred in purchases of industrial goods by farmers; (5) farm delinquency has increased; and (6) disturbances have occurred among farmers.

Purpose of Program. The purpose of the Triple-A program is to provide some regulation of marketings which will be effective in bringing about adjustment of marketings by farmers in line with demand so that the payment of extremely low prices to farmers by the trade may not be required from time to time as a means of forcing, through economic pressure and disaster, adjustments which farmers of their own initiative have been unable to make without a program.

The regulation of marketings under the Agricultural Adjustment Act of 1938 is designed to maintain as nearly as possible a "reserve supply level" of tobacco equal to 105 percent of a normal supply, consisting of the sum of 275 percent of the normal domestic consumption plus 165 percent of a normal year's exports. This supply appears to be adequate to meet the needs of the trade and about equal to the average supply carried by the trade in previous years.

Price Higher When Supply Not Excessive. During nine of the 18 years, 1920-1937, the actual supply of flue-cured tobacco was approximately the same as the reserve supply level. During the other nine years, the actual supply was greater than the reserve supply level. The average of the seasonal price for the years when the actual supply was the same as the reserve supply level was 19 percent higher than the average of seasonal prices in years when the actual supply was greater than the reserve supply level. The highest prices were obtained in years when the actual supply was less than the reserve supply level, as in 1922 when the actual supply was five percent less than the reserve supply and the price was 27.2 cents per pound. In years when the actual supply was greater than the reserve supply level prices were low, as in 1931 when the actual supply was 12 percent above the reserve supply level and the price was 12 cents per pound, and in 1931 when the actual supply was 16 percent above the reserve supply level and the price was 8.4 cents per pound.

Summarized Facts. Flue-cured tobacco growers can market about as much tobacco over a period of years with the AAA program in effect as they could market without the program.

Without a program supplies and prices fluctuate from one extreme to the other.

With a program marketings can be stabilized in line with demand thus aiding in maintaining favorable farm prices for tobacco.

On the basis of the above facts, indications are that flue-cured tobacco farmers would fare better in years of surpluses with marketing quota provisions of the AA Act of 1938 in effect than they would with uncontrolled marketings.

Conservation Alone Not Enough. Even with the conservation phase of the program operating to bring about some adjustment through payments for planting within acreage allotments and carrying out soil-building practices, flue-cured tobacco growers cannot expect under the conservation phase alone to adjust successfully marketings in line with demand so as to adequately protect their income from tobacco. This was evidenced by the extremely large crop in 1937.

The payments under the conservation part of the program can be earned by keeping acreage within the allotment. These payments for flue-cured tobacco will be at the rate of one cent per pound of the normal yield for each acre in the farm acreage allotment.

If farmers keep their plantings within allotments established under the conservation part of the program, they would probably need to make some adjustment from last year's acreage in view of the upward trend in yield.

It is contemplated that flue-cured tobacco acreage allotments will be announced this fall in order that farmers can plan their 1939 farming operations in accordance with the allotments.

According to the terms of the Agricultural Adjustment Act of 1938, if the Secretary of Agriculture finds that the figures on November 15 show that the total supply of flue-cured tobacco at the beginning of the 1938 marketing year exceeds the reserve supply level, the Secretary will then proclaim a marketing quota for the 1939 crop of bright tobacco. The proclamation would be made not later than December 1, 1938, and would specify the amount of the marketing quota for 1939.

Within 30 days after the issuance of the proclamation, the Secretary would hold a referendum of farmers engaged in the production of bright tobacco in 1938 to determine whether they favor or oppose the marketing quota. If more than one-third of these voting in the referendum oppose the quota, it will not be effective. The referendum results would be announced prior to January 1, 1939.

Supply Large. Present figures indicate that the total supply of flue-cured tobacco for the current marketing year will probably exceed the reserve supply level. Stocks on July 1, 1938, were about 70,000,000 pounds above carryover on July 1, 1937. If the 1938 crop turns out as large as the September estimate of around 786 million pounds, the total supply for the current marketing year will be about equal to last year's total supply of 1,738,000,000 pounds.

The present supply is somewhat large even in relation to the increased demand for flue-cured tobacco. Continued marketings in excess of consumption would mean less favorable prices than those received for the last five crops. The present level of world consumption of flue-cured tobacco is around 710 million pounds annually.

Marketing Quota. In the event that a marketing quota is announced for the 1939 crop, it is expected that farm quotas will be announced prior to the vote in the referendum. In this way farmers will know the amount of tobacco that can be sold under the quota prior to the time of balloting.

In determining farm marketing quotas in 1938 a weight of 75 percent was given to past marketings and a weight of 25 percent for land, labor, and equipment available for the production of tobacco; crop-rotation practices; and the soil and other physical factors affecting the production of tobacco. It is contemplated that for 1939 farm quotas would be determined on a more flexible basis, giving committeemen more leeway in considering the land, labor and equipment factor. At the same time the acreage allotments under the conservation phase of the program would be determined on a more uniform basis so that both the marketing quotas and acreage allotments would be more uniform on a comparable basis. The method of determining the acreage allotment for 1938, perhaps allowed too much leeway which resulted in a lack of uniformity in some cases. On the other hand, the method of determining marketing quotas for individual farms was perhaps too rigid, and did not allow for quite enough adjustment on the basis of land, labor and equipment available for the production of tobacco.

As a result of determining marketing quotas on a rigid basis for 1938, they probably did not fit 5 to 10 percent of the farmers as well as they should have. An attempt will be made to correct this by determining quotas on a more flexible basis in 1939.

An administrative angle of the program that would be more rigid next year is the small farm provision. It is expected that the small-farm provision would apply strictly to single, small-farm operators, and not to several different small farms under one operator and management.

In looking ahead to new-farm provisions, it is contemplated that new farms for which acreage allotments or marketing quotas were established in 1938 and those equipped and in a position to produce tobacco regularly, some upward adjustment of quota should be made. On the other hand, new farms which are not equipped to be regular tobacco producers should not receive acreage allotments or quotas.

Also, the total quota for new farms for 1939 should be limited to a small figure in view of the fact that regular tobacco growers are now in a position to produce around 900,000,000 pounds of flue-cured tobacco a year as contrasted with a world consumption level of around 700,000,000 pounds.

Should marketing quotas become effective for the 1939 crop, every effort will be made to shape the program administratively so as to enable each flue-cured tobacco farmer to grow his share of the national quota on a fair and equitable basis with every other grower over the entire bright tobacco belt.

